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C O N F I D E N T I A L OTTAWA 0240

POUCHED TO ALL CONSULS IN CANADA

E.O. 11652: GDS

TAGS: PFOR, PINT, ECON, CA

SUBJECT: TRUDEAU SPEAKS ON ECONOMIC PHILOSOPHY

SUMMARY: TRUDEAU ATTEMPTED CLARIFY HIS ECONOMIC PHILOSOPHY IN JANUARY 19 SPEECH. WHILE LATEST EFFORT DOES CLEAR UP SOME OF CONFUSION RELATING TO HIS ECONOMIC VIEWS WHICH RESULTED FROM HIS YEAR-END TV INTERVIEW, DEFINITION OF SPECIFIC SHAPE OF HIS "NEW SOCIETY" WILL STILL REQUIRE EXTENSIVE PUBLIC DISCUSSION.
END SUMMARY

1. IN TELEVISED SPEECH TO JOINT CANADIAN MEN'S AND WOMEN'S CLUBS OF OTTAWA JANUARY 19, PRIME MINISTER TRUDEAU SOUGHT TO CLARIFY HIS VIEWS ON CANADA'S ECONOMIC FUTURE, WHICH HAS BEEN THE SUBJECT OF INTENSE DEBATE SINCE YEAR-END TV INTERVIEW. HE DESCRIBED AS "PHONY" INTERPRETATION OF HIS EALIER REMARKS WHICH SUGGESTED THAT HE WAS HERALDING END OF FREE ENTERPRISE SYSTEM AND TAKING CANADA DOWN ROAD TO "SOCIALIST" OR "FASCIST" (DEPENDING ON CRITIC'S VIEWPOINT) STATE CONTROL.

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WM TRUDEAU POINTED OUT THAT CANADA HAD DEPARTED FROM

COMPLETELY FREE MARKET ECONOMY SOME 100 YEARS AGO WHEN STATE INTERVENED FOR FIRST TIME BY GRANTS OF CROWN LAND TO ENABLE CANADIAN PACIFIC TO BUILD TRANS-CONTINENTAL RAILWAY. SINCE THAT TIME, CANADA HAS HAD MIXED ECONOMY WITH PRIVATE ENTERPRISE SUPPLEMENTED BY STATE INTERVENTION WHERE LATTER REQUIRED EITHER TO PERFORM NECESSARY FUNCTIONS WHICH PRIVATE SECTOR UNWILLING OR UNABLE TO DO, OR TO IRON OUT DISTORTIONS. HE ASSERTED THAT FREE MARKET STILL EXISTS WITH RESPECT TO SMALL BUSINESS ESTABLISHMENTS, BUT CEASED TO EXIST LONG AGO IN AREAS WHERE DOMINANCE OF BIG BUSINESS AND BIG LABOR HAD REMOVED CONTROL OF PRICING, SUPPLY AND OTHER DECISIONS FROM THE CONSUMER.

3. LOOKING TO FUTURE, TRUDEAU POINTED TO PRESENT HIGH INFLATION AND HIGH UNEMPLOYMENT AS EVIDENCE THAT THE MIXED ECONOMY WHICH HAD BROUGHT CANADA PROSPERITY IN PAST WAS NO LONGER ADEQUATE RESPONSE TO CHANGING CIRCUMSTANCES. THREE-YEAR WAGE AND PRICE CONTROL PROGRAM WAS REQUIRED BY THIS INADEQUACY AND PROVIDES BREATHING SPACE FOR REFORM OF "ECONOMIC INSTITUTIONS, ATTITUDES AND PUBLIC POLICIES." TRUDEAU EVEN QUOTED FEDERAL RESERVE BOARD CHAIRMAN BURNS (WITHOUT CITING SPECIFIC CONTEXT) REGARDING NECESSITY TO CHANGE ECONOMIC "STRUCTURES" IF HIGH INFLATION CONTINUES AND UNEMPLOYMENT REMAINS AT 7 TO 8 PERCENT LEVEL AS EVIDENCE THAT HIS (TRUDEAU'S IDEAS WERE NOT "RADICAL" VIEW OF ECONOMIC CONDITIONS PREVAILING IN INDUSTRIALIZED WORLD (TRUDEAU AD-LIBBED DESCRIPTION OF BURNS AS "THAT WELL-KNOWN REVOLUTIONARY") HE CONCLUDED THAT IT IS UP TO BUSINESS, LABOR AND THE PUBLIC TO DECIDE WHETHER THE NEEDED REFORMS AND SELF-RESTRAINT ARE TO COME ABOUT BE VOLUNTARY ACTION OR THROUGH GOVERNMENT CONTROL.

4. COMMENT; SPEECH WAS EFFORT TO SET STRAIGHT ON PRIME MINISTER'S ECONOMIC VIEWS. IN CONTRAST TO TV INTERVIEW, WHICH LENT ITSELF TO MISINTERPRETATIONS AND QUOTATIONS OUT OF CONTEXT, MECHANISM OF CAREFULLY DRAFTED AND FORTHRIGHTLY DELIVERED SPEECH WILL HELP CONFIDENTIAL

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CLEAR UP AMBIGUITIES ABOUT TRUDEAU'S ECONOMIC PHILOSOPHY. HE WAS AT HIS BEST AS PROFESSOR LECTURING ASSEMBLED CROWD (AND LARGE TV AUDIENCE) ON MORAL AND ETHICAL PRINCIPLES NEEDED IF ECONOMY TO BE MANEUVERED INTO SAFE HAVEN. HE GAVE PLAUSIBLE REASONS FOR RECENT "DRASTIC INTERVENTION" OF GOVERNMENT IN ECONOMY, AND HE EXPRESSED CONFIDENCE THAT ECONOMIC PROBLEMS COULD BE MASTERED IF CANADIANS WOULD BE REASONABLE AND LESS

GREEDY. AS SKILLED DEBATER (AND HE CHARACTERIZED HIS SPEECH AS PART OF PUBLIC DEBATE ON NEW ECONOMICS), TRUDEAU WAS IMPRESSIVE. HE PUT DOWN "PHONEY" ARGUMENTS WITH SARCASM, WIT, AND APPEAL TO THE COMMON SENSE AND PATRIOTISM OF HIS LISTENERS.

5. HOWEVER, TRUDEAU GAVE NO SPECIFICS ON WHAT IS NOW REQUIRED. HE WAS VAGUE ON WHAT "ECONOMIC INSTITUTIONS" NEEDED WHAT KIND OF "REFORM," AND DID NOT OUTLINE HOW SPECIFICALLY BUSINESS, LABOR AND THE PUBLIC WOULD BE ABLE TO DEMONSTRATE BY END OF THREE-YEAR CONTROL PROGRAM SUFFICIENT RESPONSIBILITY AND RESTRAINT TO JUSTIFY END TO CONTROLS. HE CALLED ON THESE GROUPS TO OFFER SUGGESTIONS ON ACHIEVING THE "NEW SOCIETY" BUT GAVE ONLY SHADOWY GLIMPSE (MORE GOVERNMENT INTERVENTION) OF WHAT WOULD HAPPEN IF CANADIAN SOCIETY DID NOT HELP TO MAKE ANTI-INFLATION PROGRAM WORK.

6. IMMEDIATE REACTION FROM PERSONS ASSEMBLED BY TV BROADCASTERS TO COMMENT ON PM'S SPEECH WAS NEGATIVE AND HOSTILE, NOT SURPRISINGLY SINCE THEY REPRESENTED GROUPS PREVIOUSLY CRITICAL OF HIM. ONLY SOME BUSINESS REPRESENTATIVES THOUGHT TRUDEAU HAD "BACKED AWAY" SOMEWHAT FROM HIS ALLEGED ANTI-FREE MARKET VIEWS OF DECEMBER, BUT THEY VOICED APPREHENSION REGARDING TRUDEAU'S PROMISE OF MORE GOVERNMENT INTERVENTION IF CONTROL PROGRAM FAILED. NDP (AND FORMER ECONOMICS PROFESSOR) LEADER BROADBENT CHARACTERIZED SPEECH AS FEEBLE EFFORT BY FIRST-YEAR ECONOMICS MAJOR AND FAULTED PM FOR NOT PROVIDING ECONOMIC LEADERSHIP. TRADE UNION REPRESENTATIVES WERE EQUALLY CRITICAL OF SPEECH FOR ALLEGEDLY NOT CLARIFYING "NEW SOCIETY" CONCEPT AND CLAIMED THAT ECONOMIC CONDITIONS WERE NOT AS BAD AS TRUDEAU PICTURED THEM. FINANCIAL POST EDITOR SAID TRUDEAU

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POINTED OUT THE OBVIOUS (WE HAVE A MIXED ECONOMY) BUT DID NOT ACCEPT ANY BLAME FOR PAST BAD ECONOMIC DECISIONS BY GOVERNMENT LEADING TO HIGH UNEMPLOYMENT AND INFLATION.

7. IN EMBASSY'S VIEW, TRUDEAU DID NOT SAY ANYTHING TERRIBLY NEW IN HIS SPEECH. HE SAID IT BETTER AND WITH MORE CONVICTION. HE WILL CONTINUE TO BE CRITICIZED BUT HAS PROBABLY NARROWED THE FIELD OF CRITICS. HE HAS ALSO SHIFTED THE GROUND FROM THE INCONCLUSIVE "WHAT DID HE SAY" ARGUMENTATION, WHICH HAS CHARACTERIZED PUBLIC COMMENTARY SINCE YEAR END, TO ATTEMPTS TO DEFINE WHERE THIS WILL LEAD US AND HOW. THE NEW QUESTIONS AND AMBIGUITIES RAISED BY TRUDEAU'S LATEST PRONOUNCEMENT PROMISE TO GIVE RISE TO A LENGTHY AND CLOUDY PUBLIC DEBATE BEFORE THE SHAPE OF HIS "NEW SOCIETY" BECOMES

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